El Niño leaves bitter taste as cocoa prices bite

Commodities
Stephen Cauchi

Here’s some bad news for chocolate lovers: cocoa is the most expensive commodity, at least relative to recent history.

Figures from Deutsche Bank, which ranked the prices of 20 commodities in comparison to their 2000-2014 average price, shows cocoa is 34 per cent more expensive this year compared with its long-term average price.

That was more expensive than gold (23 per cent more expensive this year), palladium (22 per cent more expensive) and tin (6 per cent more expensive). Lead cost as much this year as its long-term average price.

The other 15 commodities were cheaper than their long-term average price. Oil was 35 per cent cheaper and US natural gas 60 per cent cheaper.

There are long-term issues with cocoa production, but the short-term problems this year – which have cut supply and boosted prices – revolve around dry weather associated with the El Niño phenomenon.

Cacao trees, which produce cocoa, grow in countries near the equator. African countries like Ivory Coast, Ghana, Nigeria and Cameroon are big producers, accounting for 70 per cent of the world’s output. Indonesia is the world’s third-largest supplier. South and Central American countries like Peru, Brazil and Mexico are also major producers. Unfortunately, the dry weather affected the health of the trees and, therefore, this year’s crop, a recent edition of MarketWatch said.

The world’s largest cocoa producer, Ivory Coast, was expected to be down 100,000 tonnes from last year’s 1.72 million tonne harvest, it said. The harvest begins in September-October and continues into the first quarter of next year.

And the news was no better in Indonesia. Bloomberg reports that "cocoa production in Indonesia will probably plunge to a record low this year as an El Niño-linked dry spell may parch crops". Indonesia Cocoa Association chairman Zulhefi Sikumbang said farmers might reap 70 per cent fewer beans in the September to December harvest compared with 2014 if El Niño strengthened.

However, ultimately, what does all this mean for the Australian consumer and the price of their favourite block of chocolate?

Professor David Guest, from the University of Sydney’s Department of Plant and Food Sciences, told the ABC this year that prices would begin to lift about 2018 and could eventually double. “We're OK for the next year or two, but after that as the demand for beans goes up, most of the chocolate companies are predicting we'll be about a million tonnes of beans short of demand by 2020,” he said. “You'll be expecting to pay twice the price if we're looking at 2020.”

Political and social upheaval in West Africa was causing long-term supply problems, he said. Meanwhile, in Indonesia, farmers were turning to more profitable coffee and maize crops. Demand factors were another firm support for cocoa prices, he said. Chocolate consumption in China and India, about 50 grams a year per person compared with six or seven kilograms in Australia, was set to boom.